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SUBJECT: Weekly Economic Review No. 52 OCB-2 AEC-6 Ag-8 FRB-2 N-1 LAB-5 TAR-2 TR-3 XMB-4

1. Coal Developments
2. Further Economic Assistance to Berlin
3. Federal Government Guarantees Saar Savings Accounts
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ECON:CA:LPFickott,Jr./mcf

REPORTER

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1. Coal Developments (UNCLASSIFIED)

Ruhr coal industry is estimating annual hard coal production in 1958 in FedRep at 132.6 million tons, compared with 133.2 million tons total production in 1957. The industry also states production will go down by more than 10 million tons, should 5-day work week be introduced, which Mining Unions are going to demand early next year.

According to High Authority data, free shifts in 1958 resulted in loss in production of 3.1 million tons in FedRep and 170,000 tons at Saar, comparing to total loss in CSC area of 5.13 tons during first eleven months of 1958.

During Federal Cabinet meeting of December 19, Minister Erhard informed Cabinet in detail about recent developments in coal crisis and actions taken to relieve it. He said the Govt will take measures in the field of coal import policy. He also reported on State Secretary Westrick's visit to Washington and Minister Trimble's discussion with him in Bonn, outlining the special problems involved on the U. S. side as set forth by Minister Trimble. According to Minister Erhard, discussions with American authorities are being continued "in the spirit of friendly cooperation in order to come to a satisfactory solution"; after conclusion of these negotiations, Cabinet will again deal with problem. (According to press reports, question of raising import taxes on coal has been introduced into the present discussions. However, it is being emphasized that such action would have to be taken immediately to prevent efforts on the part of contractors to get in as many shiploads of coal as possible before the taxes become effective.)

The Minister further summarized all actions taken so far by the Ministry to activate coal sales including: (1) recommendations to main consumer groups for continuation of normal procurement rates rather than consuming own stocks; (2) support of efforts of producers to conclude long-term contracts; (3) recommendations to Federal public consumers to meet their demand for fuel promptly; (4) recommendations to Land Econ Ministers advocating timely procurement to cover coal and coke requirements for the winter 1958/59; (5) recommendations to authorities responsible for procurement for stationing forces to effect their coal procurement in the beginning of coal fiscal year; (6) request of coal importers not to conclude new contracts and to stretch import obligations; (7) reduction of permissible contract terms for liberalized imports from 36 to 18 months; (8) introduction of procedure of individual approvals in order to restrict import contracts for coal from third countries; (9) support of exporters' efforts toward increasing exports of solid fuels to third countries.

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In agreement with Federal Min Econ, hard coal mining itself has contributed to activation of market in September by granting industry a price rebate of 10 percent for any quantities procured over and above normal supplies. A few additional measures were being realized, such as additional consumption of about 1.2 million tons of coal by Bundesbahn, delivery of 1 million tons of hard coal to the Soviet Zone, additional coal stockpile by Bundeswehr of about 1 million tons of hard coal. Further under discussion at High Authority are stock financing and reduction of CSC levies, as well as financial aid according to Article 23 of CSC Treaty for closing down of marginal mines.

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The Cabinet also approved an agreement between the coal industry and the oil industry under which the oil industry will bind itself for two years not to underbid world market price for heavy heating oil and not take orders from customers now using coal for a period of one year. In this connection, an application for a business cycle cartel under Article 8 of Cartel Law will be submitted to Econ Ministry shortly.

The Cabinet also recommended that an increase in price of heating oil for household purposes should be avoided. It also approved a 4 percent turnover tax on heavy heating oil processed in German refineries from imported crude. It further recommended that the coal industry take effective measures to solve its problems and strengthen its competitiveness.

In press statement of Ruhr Coal Mining Employers Association, satisfaction is expressed over Government's efforts to give assurance that it would make every effort to find commercial solution of reducing U. S. coal imports, now that danger of oil taking advantage of gap created by cancellation of U. S. coal imports is eliminated.

On the other hand, SPD Bundestag economic expert Deist strongly criticized inadequacy of present measures to relieve coal situation and advocated effective shortening of work hours and drastic restriction of imports. Otherwise, he says, continuing high prices for coal, excessive heating oil prices, and new demands for subsidization will have to be expected. In his opinion, coal and oil industries have by pressure obtained Govt agreement of a super-cartel, placing them in position of strong economic bloc vis-a-vis Government.

2. Further Economic Assistance to Berlin (UNCLASSIFIED)

On December 20, Minister Erhard sitting with Economic Committee of Cabinet, discussed economic situation in West Berlin with Senator Hertz and other Berlin Senat representatives and with Federal Representative in Berlin, Dr. Vockel. Conferees agreed on adoption of new measures to promote economic activity in Berlin. These measures include intensification of public investment, additional sum of DM 250 million to be made available for lending to private business from ERP Special Fund and reduction in interest rates on ERP working capital loans from 6 to 5 percent starting December 1, 1958. Berlin turnover tax preferences would also be extended beyond December 1, 1959, present date of expiration.

On same day, leading West German industrialists and bankers including Fritz Berg, President of Federation of German Industry, and Carl Blessing, President of Bundesbank, met with Governing Mayor of Berlin Willi Brandt and Federal Minister for All-German Affairs, Ernst Lemmer, to discuss possibilities of increase in volume of West German orders for West Berlin. West German participants promised additional orders with total volume of about DM 1 billion.

Comment: Govt seeks to avoid at all cost flight of capital or of population from West Berlin. Although unemployment problem in Berlin has not deteriorated, it is thought best to extend as many job opportunities as possible to eliminate any excuse on part of private persons to leave Berlin. Action of industrialists is intended to counteract publicity recently given to small group of West German businessmen who are reported to have curtailed

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orders in West Berlin and to have insisted on cash payments from Berlin firms. Conference was given considerable play in German press and was evidently intended to reassure people that no retreat from Berlin was contemplated.

3. Federal Govt Guarantees Saar Savings Accounts (UNCLASSIFIED)

To meet uncertainty in Saar concerning possible devaluation of French franc, Federal Govt has given guaranty for savings in Saar of natural persons at DM value these savings had on December 19, 1958, i. e. such assets will be converted into DM at DM 1 = ffrs 100 when economic reintegration becomes effective (January 1, 1960 at latest), whatever course of franc might then be. Covered by this guaranty are savings deposits, building and loan association deposits, trust accounts and reserves of life insurance companies valued at total of about ffrs 50 billion (DM 500 million).

Federal Govt also announced its decision to reimburse residents of Saar, after reintegration, amount of French turnover tax (TVA) paid on purchases in France made until reintegration.

Comment: First measure was long expected, and considered necessary to prevent large withdrawals from Saar savings deposits. Its announcement at this time was apparently related to very recent speculation concerning franc, rate for which last weekend fell to DM 0.84 for ffrs 100. Second measure is designed to facilitate reintegration of Saar and to prevent further decrease of Saarland purchases of high-taxed French goods.

4. Federal Govt Willing to Participate in Aswan Dam (UNCLASSIFIED)

German delegation consisting of representatives of Economics and Finance Ministries and Foreign Office will visit Cairo in January, if agreeable to Egyptian Govt, to discuss German participation in construction of Aswan Dam. In this connection, it is reported that consortium of German firms interested in obtaining contracts for construction work on this project has applied to Govt for guaranty of DM 200 million. No decision has yet been taken on question of guaranty.

Comment: Decision to send mission to Egypt was taken suddenly on Monday and announced to press almost immediately.

5. Privatization of PREUSSAG A.G. (UNCLASSIFIED)

Federal Cabinet approved December 19 plan under which Preussische Bergwerks- und Huetten A.G., Hannover, wholly-owned govt enterprise, would be returned in part to private ownership. Plan is also attempt to distribute ownership among low and middle income persons. Three hundred thousand new shares with par of DM 100 and planned offering price of DM 120 to DM 130 will be created. Outside of portion to be reserved for sale to employees of enterprise, remainder will be sold to persons earning annual incomes not exceeding DM 16,000 as shown by their 1957 income tax. No more than five shares will be sold to each persons.

Comment: Plan implements govt policy declaration to return business corporations now wholly owned by Govt to private ownership. Attempt to force

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